**PHILIP MORRIS U.S.A.** INTER-OFFICE CORRESPONDENCE

120 PARK AVENUE, NEW YORK, N.Y 10017

TO: Arthur Goldfarb DATE: March 12, 1990

FROM: Marketing Information & Analysis/Lillian Johnson

SUBJECT: ALPINE COUPON/MERCHANDISING TEST

The following is a summary of the Alpine Coupon/Merchandising Test that was conducted in ABCO supermarkets (Phoenix) to evaluate the sales and share impact on Alpine when merchandised on Free-Standing Value Centers at different coupon values in the supermarket trade class.

HIGHLIGHTS

- Alpine's sales increased significantly (+274%; +2.3 share points) when merchandised from a Free-Standing PM Value Center with an increased coupon value of $3.00 from $2.00.
- When Alpine was left at a $2.00 coupon level and placed on a Value Center, Alpine's volume response was 205% translating into an additional share point. This strong display effect reflects Alpine's increased inventory and visibility.
- Given Alpine's volume response to the display and $3.00 coupon (+274%) and the display only (+205%), the difference in Alpine's performance between the two test panels is therefore the coupon effect ($1.00 coupon increment): +69%. In short, increased visibility contributed almost three times as much volume as did the $1.00 incremental coupon value.
- While Cambridge's on-carton coupons remained at existing values ($2.00), the brand benefited significantly from the increased visibility and inventory as a result of the PM Value Center placements. On average, Cambridge's volume increased 33% or 1.4 share points.
- Brands that were identifiably impacted by Alpine's and Cambridge's share growth included Doral, B&H, Salem and Malibu.

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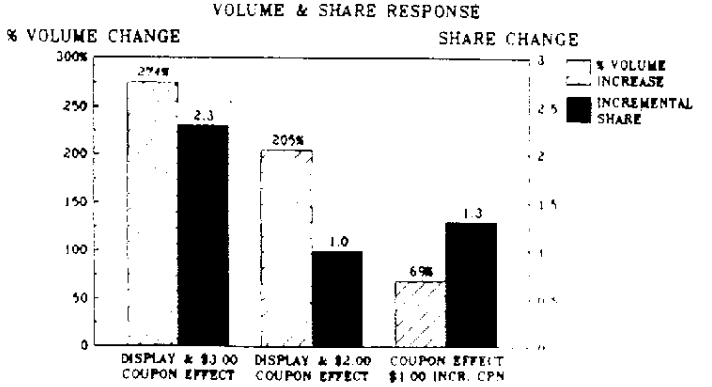
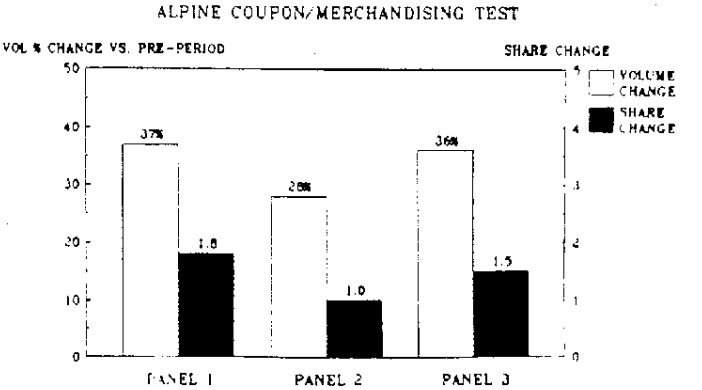
ALPINE
COUPON & MERCHANDISING TEST
VOLUME & SHARE RESPONSE




CAMBRIDGE WITH $2.00 COUPONS
ALPINE COUPON/MERCHANDISING TEST




Source: https://www.industrydocuments.ucsf.edu/docs/szfn0004

BACKGROUND

In an effort to understand the sales response when Alpine is merchandised on Free-Standing Value Centers at different coupon values ($3.00, $2.00, $0), three test panels were established as follows:

- Panel 1: Free-Standing Value Centers (Alpine $3.00; Cambridge $2.00)
- Panel 2: Free-Standing Value Centers (Alpine $2.00; Cambridge $2.00)
- Panel 3: Free-Standing Value Centers (Alpine $0; Cambridge $2.00)

Prior to conducting the test, all ABCO supermarkets merchandised Price Value brands from RJR In-Line Value Centers. For the purposes of this study, in order to communicate a clear price call-out for Alpine, PM 7-Wide Free Standing Value Centers with Alpine header cards were placed in all test stores. Therefore, the test measured the sales/share impact of the various coupon levels and Alpine's response to Value Center placements.

From these PM Value Centers, Alpine was merchandised from the top shelf and Cambridge was on the second and third shelves. The bottom shelf was left optional for Black & White Generics or excess inventory. Since Alpine/Cambridge were merchandised from the newly placed Value Centers as well as from existing fixtures (RJR In-Line Value Centers), inventory for both brands increased by approximately 200%.

DISTRIBUTION:

R. Anise
B. Baker
D. Beran
S. Bloom
V. Buccellato
E. Butson
J. Chaump
D. Dangoor
H. Glastein
N. Lund
M. Mahan
T. McCarthy
R. Medwar
E. Merlo
R. Mikulay
D. Nelson
B. O'Brien
J. Raporte
S. Sabella
T. Saloun
B. Schuyler
J. Scully
J. Spector
R. Stirlen
R. Tomei
L. Wexler

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Source: https://www.industrydocuments.ucsf.edu/docs/szfn0004

METHODOLOGY

This test was conducted in ABCO supermarkets in Phoenix for eight weeks in June and July 1989. The test design consisted of three test panels with eleven stores each. Using eight weeks of historical scanning data, the test panels were matched and balanced based on volume and share for:

- Total Cigarettes
- Price Value
- Cambridge
- Alpine

Prior to conducting the test, all participating ABCO stores merchandised carton cigarettes from RJR fixtures which were located in the lobby. Price Value brands were merchandised from In-Line Value Centers that were adjacent to the main carton fixtures, where Doral signage was present, displaying carton prices for Doral only. Importantly, no PM Value Centers were present.

Interestingly, across the test stores, the price communication and couponing was inconsistent. For instance, in some stores, Doral's selling price after the reduction of a $2.00 coupon was displayed (despite little coupon availability) while in other stores, Doral's "Everyday Low Price" was displayed, without any indication of a coupon reduction.

In order to merchandise the test product properly and adequately communicate the price of Alpine, 7-Wide PM Value Centers were placed in each test store. These fixtures displayed an Alpine header card communicating Alpine's final selling price after the coupon reduction.

Alpine was merchandised from the top shelf of the Value Center while Cambridge was merchandised from the second and third shelves. The bottom shelf was reserved for either Black & White Generics or excess inventory. Any Cambridge or Alpine inventory previously present on the In-Line Value Center was maintained and couponed similarly to the inventory on the PM Value Centers. In placing the Value Centers, inventory for Alpine and Cambridge was increased by approximately 200%.

Prior to the test, all Alpine and Cambridge carton inventory was merchandised with $2.00 coupons. At the start of the test, in Panel 1, all existing coupons were removed from Alpine and $3.00 coupons were placed. In Panel 2, Alpine inventory was already couponed at the $2.00 level and continued throughout the test. In Panel 3, all coupons on Alpine were removed and this inventory remained void of coupons throughout the duration of the test. Cambridge inventory, previously couponed at $2.00, remained at this level across the test panels.

To ensure that test conditions were maintained, auditors visited the stores weekly. At this time, any necessary stocking was done, coupons were replenished on any new inventory and the Alpine header cards were maintained.

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Source: https://www.industrydocuments.ucsf.edu/docs/szfn0004

While this analysis was conducted utilizing scanning data, auditors also collected carton prices, Alpine inventory, and the presence of any competitive coupon and display activity.

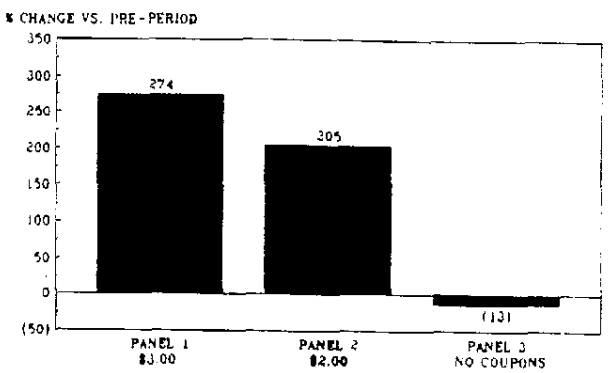
FINDINGS

When Alpine was merchandised from Free-Standing Value Centers with $3.00 coupons, the brand's volume increased significantly by 274%. Comparatively, when merchandised under similar retail conditions with $2.00 coupons, volume increased over 200%. This indicates that a significant amount of Alpine's volume response at the $3.00 coupon level was a result of the increased visibility and inventory of the Value Center placements. In fact, the best estimate of the volume response to the higher coupon value (incremental $1.00) is the difference between the $3.00 and $2.00 test panels: 274% - 205% = 69%.

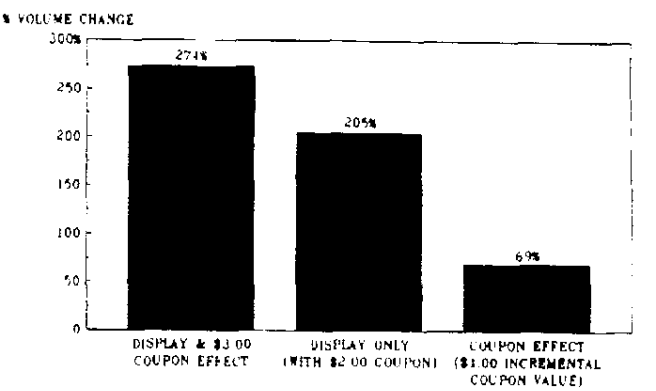
By placing Free-Standing Value Centers (displays), Alpine's visibility and inventory were significantly increased. In addition, with the header card, Alpine enjoyed the benefit of a clear price call-out, which was obviously not present on the RJR In-Line carton fixture.

Interestingly, in the $0 coupon test panel where Alpine was merchandised from PM Value Centers with no coupons, volume declined marginally -13% or -0.1 share points.

ALPINE COUPON/MERCHANDISING TEST
UNIT VOLUME CHANGE




ALPINE COUPON/MERCHANDISING TEST
BEST CASE SCENARIO




On a share basis, Alpine's competitive position improved +2.3 share points in the $3.00 Panel with PM Value Centers and +1.0 share points in the $2.00 Panel, with PM Value Centers. Again, when Alpine was merchandised with no coupons from PM Value Centers, the share impact was minimal.

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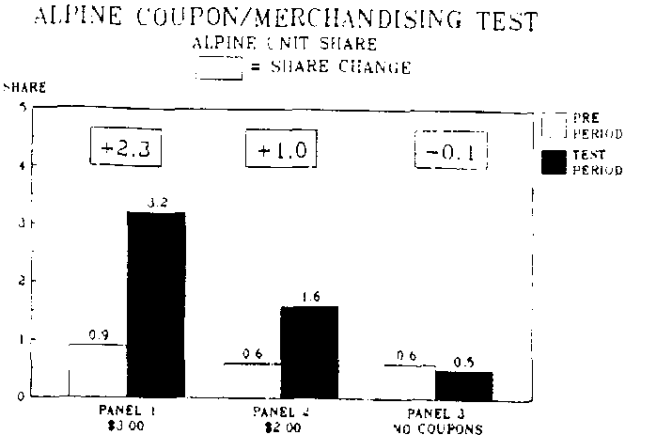
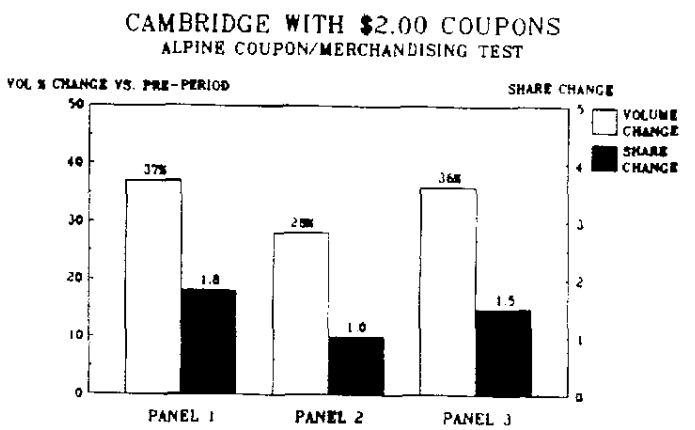
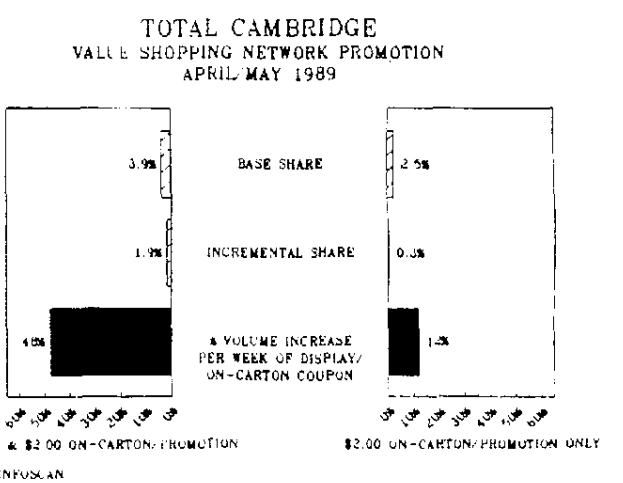
Source: https://www.industrydocuments.ucsf.edu/docs/szfn0004




To further support the positive impact of visibility and inventory when PM Value Centers are placed, Cambridge's volume increased an average of 33% across the test panels, translating into +1.4 incremental share points. These results on the effectiveness of displays is consistent with an analysis conducted for Cambridge's Value Shopping Network promotion (April/May 1989). Cambridge's volume/share response was significantly higher in stores which received the VSN temporary display unit (+48% or 1.9 incremental share points) versus those stores in which the promotion was placed only on existing fixtures (+12% or 0.3 incremental share points).




In the $3.00 Panel, Doral and B&H appeared to be significantly impacted (-0.7 share points each) by Alpine's/Cambridge's share response. Other brands significantly impacted (-0.2/-0.3 share points) included Malibu, Salem, True, Now and Black & White Generics.

Interestingly, Cambridge's increased share in this test panel coupled with the negative impact on Doral's competitive position, placed Cambridge ahead of Doral (6.9% versus 4.9%), which prior to the test, was the leading Price Value brand.

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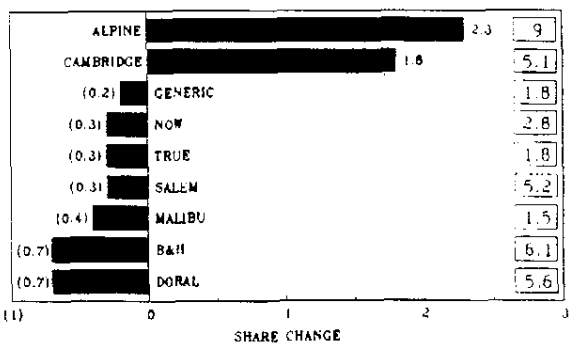
Source: https://www.industrydocuments.ucsf.edu/docs/szfn0004

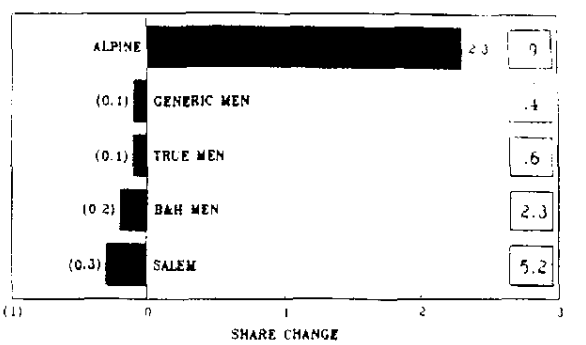
If Alpine's impact on menthol brands is evaluated in this panel, it is clear that the aggregate share loss (-0.7 points) across these brands (Salem, B&H Menthol, True Menthol, B&W Generics Menthol) does not account for Alpine's entire growth (+2.3 points). However, this may be due to the competitive promotional response from major menthol brands in the $3.00 panel such as Salem, True Menthol and Kool, which showed increased couponing incidence relative to levels observed in the $2.00 panel.

ALPINE COUPON/MERCHANDISING TEST
UNIT SHARE CHANGE
PANEL 1 - $3.00 COUPONS
= PRE-PERIOD SHARE



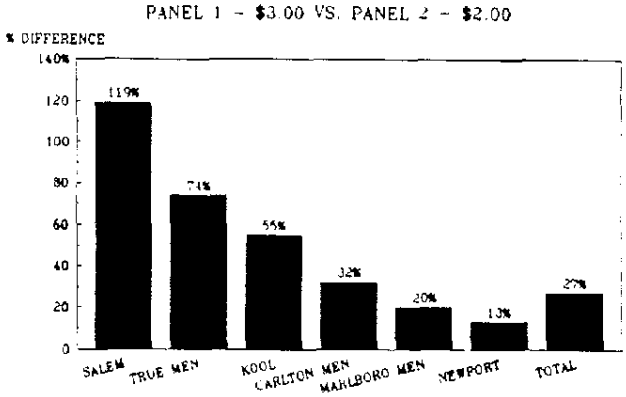

* BASED ON 90% CONFIDENCE LEVEL

ALPINE COUPON/MERCHANDISING TEST
MENTHOL BRANDS
UNIT SHARE CHANGE
PANEL 1 - $3.00 COUPONS
= PRE-PERIOD SHARE




* BASED ON 90% CONFIDENCE LEVEL

ALPINE COUPON/MERCHANDISING TEST
COUPON INCIDENCE
PANEL 1 - $3.00 VS. PANEL 2 - $2.00

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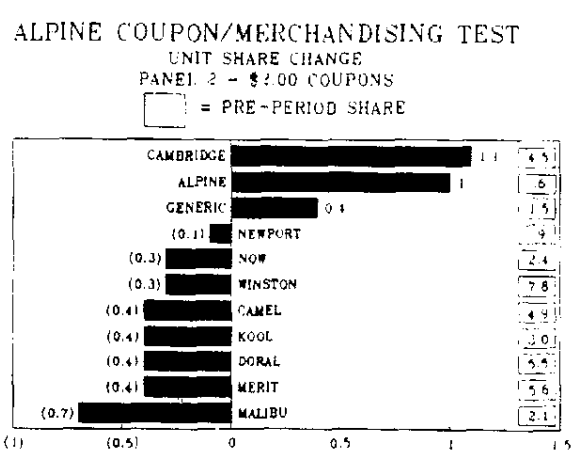
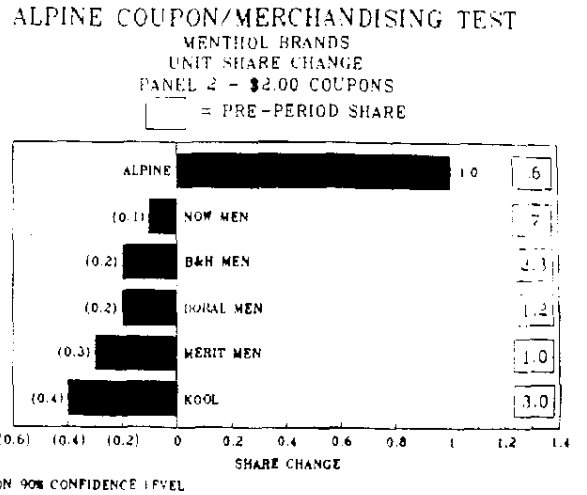
Source: https://www.industrydocuments.ucsf.edu/docs/szfn0004

In the $2.00 Panel, Alpine's and Cambridge's share increased approximately one point each. These increases are more directly the result of several key brands. Within the menthol segment, Alpine's source of incremental share can be traced almost entirely to Kool, Merit Menthol, Doral Menthol, B&H Menthol and Now Menthol. Once again, there was no competitive promotional response in this panel as was the case in the $3.00 test cell, resulting in more direct sourcing patterns.




BASED ON 90% CONFIDENCE LEVEL




* BASED ON 90% CONFIDENCE LEVEL

LJ1

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Source: https://www.industrydocuments.ucsf.edu/docs/szfn0004